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SPECIAL PROGRAMME FOR INDUSTRIAL DEVELOPMENT IN THE ARAB COUNTRIES

Progress report by the Director-General

Summary

Reports on progress made in the formulation and implementation of the Special Programme for Industrial Development in the Arab Countries, in particular concerning activities carried out in response to General Conference resolution GC.4/Res.5.

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Introduction

1. The General Conference at its fourth session adopted resolution GC.4/Res.5 in which it took note of the progress report by the Director-General (GC.4/27) and requested him to formulate the Special Programme so as to address regional activities devoted to increased industrial cooperation among Arab countries as well as activities aimed at meeting the urgent needs of the Arab least developed countries. The Director-General was also requested to ensure that the programme activities address the priorities of: training and development of human resources; standardization and quality control; development of technological functions and capacity; marketing and trade in industrial products; industrial information; and agro- and agro-based industries (para. 3 of the resolution). Other requests related to the need to secure the necessary funds for the speedy implementation of the identified projects, to enhance the capabilities of the Arab Countries Programme in the Secretariat to cope with the increased demands of the activities of the Special Programme, and to ensure the full collaboration of the specialized Arab organizations to formulate and follow up the activities of the Programme.

2. The present report on progress achieved in implementing the above requests is submitted to the General Conference at its fifth session through the Board at its tenth session in compliance with paragraph 8 of resolution GC.4/Res.5.

I. ELABORATION OF THE SPECIAL PROGRAMME

3. Pursuant to paragraph 2 of General Conference resolution GC.4/Res.5, UNIDO has initiated activities to assess the immediate needs for closer industrial cooperation among Arab States as well as the needs of the Arab least developed countries.

4. The main activity carried out by UNIDO for that purpose in 1992 was the Inter-agency Meeting for the Special Programme for Industrial Development in the Arab Countries convened in Vienna from 26 to 28 February in cooperation with the League of Arab States (LAS), the Arab Industrial Development and Mining Organization (AIDMO) and the United Nations Economic and Social

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Commission for Western Asia (ESCWA). Participants in the meeting comprised representatives from those regional organizations, the Organization of the Petroleum Exporting Countries (OPEC) Fund for International Development, a number of Arab national institutions and permanent missions of Arab States to UNIDO. The meeting focused on the elaboration of the components of the Special Programme, the selection of priorities from among proposals for technical cooperation projects, the preparation of a plan of action for the 1992-1993 biennium, and the mobilization of resources for the implementation of the Special Programme.

5. The discussions at the meeting were based on a working paper prepared by a UNIDO consultant on these matters and a set of 14 project profiles prepared jointly by UNIDO, AIDMO and ESCWA that covered, inter alia, development of human resources, standardization and quality control, technological development, and industrial information. Guidelines and a plan of action were formulated for the Special Programme for the 1992-1993 biennium and agreement was reached on certain organizational arrangements aimed at achieving closer cooperation and coordination between UNIDO and the regional collaborating organizations with a view to expanding and promoting industrial activities under the Special Programme. It was agreed that UNIDO, AIDMO, LAS and ESCWA would in future meet twice a year to review the progress of the implementation of the programme and to discuss their contribution and commitments to the new activities and projects. The next meeting is scheduled to take place at Cairo, Egypt, at LAS headquarters, in September/October 1992.

6. Copies of the report of the inter-agency meeting (PPD.222(SPEC.)), which was distributed to all Arab regional and international organizations concerned upon finalization, are available with the Secretariat.

7. With regard to the request addressed to the Director-General in paragraph 5 of Conference resolution GC.4/Res.5 to enhance the capabilities of the Arab countries programme in the Secretariat, more effective utilization of the staff has been undertaken including redistribution of staff assignments. Furthermore, a high-level consultant was recruited to help elaborate more specifically the components of the Special Programme, consolidate the project profiles and work out the plan of action of the current biennium.

II. PROJECTS COMPLETED OR UNDER CONSIDERATION

8. Since the adoption of General Conference resolution GC.4/Res.5, UNIDO has approved and implemented a number of activities in the areas falling under the priorities identified in paragraph 3 of the resolution, e.g.:

(a) Joint UNIDO/Arab School of Science and Technology (ASST) workshop on composites and advanced materials: development and technology (Damascus, Syrian Arab Republic, 16-22 February 1992);

(b) National workshop on cost accounting in the food industry (Khartoum, Sudan, 1-12 December 1991);

(c) Workshop on industrial project preparation, evaluation and the application of the UNIDO Computer Model for Feasibility Analysis and Reporting (COMFAR) (Cairo, Egypt, 2-3 December 1991);

(d) Regional workshop on maintenance of textile machinery for Arab least developed countries (Alexandria, Egypt), approved and to be implemented in the near future;

(e) Joint UNIDO/ASST workshop on information technology and applications (Damascus, Syrian Arab Republic, 25-31 May 1992);

(f) Consultancy services regarding the establishment of a data bank for the Arab Railways Union;

(g) Consultancy services regarding the establishment of a data bank for the Arab Union for Cement and Building Materials (AUCBM).

9. In cooperation with the General Union of Chambers of Commerce, Industry and Agriculture for Arab Countries (Lebanon) a project formulation mission was fielded to prepare a project document for the establishment of a regional trade information centre at Beirut and the project is now ready and under active consideration by UNIDO. Another mission was fielded to the Syrian Arab Republic to identify new projects and prepare documents for a number of projects previously discussed in relation with the activities described in paragraph 8 (f) and (g) above. As a result, project documents have been prepared for:

(a) The establishment of a data bank for the Arab Railways Union;

(b) The establishment of a data bank for AUCBM;

(c) The Arab School of Science and Technology concerning:

(i) The establishment of an industrial data bank;

(ii) The establishment of a centre for software development, training and marketing;

(iii) New and renewable sources of energy;

(iv) The establishment of an Arab materials research centre.

These project documents are currently being appraised and considered for approval in the light of available resources.

10. At the inter-agency meeting mentioned above, some of the Arab regional organizations indicated that they may contribute to the financing of certain projects through cost sharing arrangements with UNIDO. Pending concrete decisions in that respect, the mobilization of financial resources will be pursued further with all financing agencies in the region. Joint efforts will also continue with the Arab League, AIDMO and other organizations in order to develop the activities of the Special Programme and secure the required financial resources.

III. ACTION REQUIRED OF THE BOARD

11. The Board may wish to take note of the present report and provide guidance for further action.

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MOBILIZATION OF FINANCIAL RESOURCES FOR INDUSTRIAL DEVELOPMENT

THE EXTERNAL DEBT AND INDUSTRIAL DEVELOPMENT

Progress report by the Director-General

Summary

Reports on the implementation of the actions and measures called for in General Conference resolutions GC.4/Res.21 on the mobilization of financial resources for industrial development and GC.4/Res.22 on the external debt and industrial development.

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Introduction

1. In its resolution GC.4/Res.21 on the mobilization of financial resources for industrial development, the General Conference at its fourth session requested the Director-General:

(a) To make recommendations to Member States based on the studies on innovations in industrial financing in developing countries including debt-equity swaps, venture capital companies and funds, country funds focused on developing country stock markets, industrial leasing, and build-operate-transfer (BOT) arrangements (GC.4/Res.21, para. 1);

(b) To pursue and reinforce UNIDO activities concerning the mandate in General Conference resolution GC.2/Res.10, paragraph 1, with special emphasis on the effective promotion of direct mobilization of financial resources for the industrialization of developing countries; (ibid., para. 2 (a))

(c) To take actions called for in paragraph (h) (iii) of Board decision IDB.7/Dec.18 and, for that purpose, to take into account the measures indicated in paragraphs 12 to 29 of document GC.4/33, in particular to strengthen all pre-investment activities mentioned in paragraphs 15 to 24 of document GC.4/33, inter alia, the investment promotion programme, feasibility studies and the System of Consultations (ibid., para. 2 (b));

(d) To ensure that in the planning, formulation and implementation of UNIDO activities, the mobilization of financial resources be in conformity with the priorities set out in the Constitution of UNIDO and the medium-term plan 1992-1997 (ibid., para. 2 (c));

(e) To ensure greater complementarity by improving coordination with the regional organizations and international financing institutions, in particular the World Bank Group and the regional and subregional development banks, in order to promote effectively the mobilization of financial resources for the industrial development of developing countries (ibid., para. 4);

(f) To intensify efforts so that UNIDO shall assist developing countries in identifying and designing industrial projects in response to their needs as well as in maintaining its intermediary role in seeking financing from all sources necessary for their planning and implementation (ibid., para. 5); and

(g) To submit to the Board at its tenth session a progress report on the implementation of the actions called for in the resolution as listed above (ibid., para. 6).

2. Furthermore, in its resolution GC.4/Res.22 on the external debt and industrial development, the Conference requested the Director-General:

(a) To take fully into account in implementing UNIDO activities such as those enumerated in document GC.4/33, chapter II, the need to alleviate the debt burden of the developing countries, especially with regard to pre-investment activities, contract negotiations and financing of industrial projects and, on this basis, to present the report requested in paragraph (e) (i) of Board decision IDB.7/Dec.20, i.e. a report on how UNIDO technical cooperation activities take those concerns into account (GC.4/Res.22, para. 2);

(b) To ensure that the activities of UNIDO take into account the need to offset the negative effects of external debt on the industrial sectors of developing countries (ibid., para. 3 (a));

(c) To promote and implement, in collaboration with developed and developing countries as well as relevant financial institutions, possible UNIDO inputs in the current methods of industrial financing outlined in document GC.4/33, according to the needs of interested developing countries and to continue to develop within UNIDO's area of competence innovative approaches for specific programme and project proposals geared to the alleviation of the adverse impact of external debt on industrial development (ibid., para. 3 (b));

(d) To ensure that in the planning, formulation and implementation of UNIDO activities, the debt problem be considered in connection with the priorities of developing countries expressed in the medium-term plan (ibid., para. 3 (c));

(e) To promote financial contributions to the Industrial Development Fund, to rehabilitate and increase the competitiveness of the industry of the highly indebted developing countries (ibid., para. 3 (d)); and

(f) To report on the implementation of the measures listed above to the Conference at its fifth session through the Board at its tenth session (ibid., para. 6).

3. Because of the very considerable degree of overlap in UNIDO activities aimed at the mobilization of financial resources for industrial development and those directed towards alleviation of the effects of the external debt on industrial development in developing countries, the present document provides a single joint report on the two subjects. Furthermore, the report requested by the Board in its decision IDB.7/Dec.20 (para. (e) (i)), referred to in paragraph 2 (a) above is included in paragraphs 23 to 27 below.

I. MOBILIZATION OF FINANCIAL RESOURCES

Innovations in industrial financing (GC.4/Res.21, para. 1)

4. Information on financial innovations for industrial development has been presented by the Secretariat in chapter IV of Industry and Development: Global Report 1991/92 (ID/376). This information covers, inter alia, a series of recommendations on measures to be taken and constraints which need to be overcome primarily at the national level, if individual developing countries wish to make use of debt-equity swaps, venture capital companies and funds, country funds focused on developing country stock markets, industrial leasing, and BOT arrangements. A report submitted to the seventh session of the Board (IDB.7/23) also examined possible UNIDO inputs into the operation of innovations for the mobilization of financial resources for industry in developing countries, i.e. technical cooperation activities that UNIDO can undertake with developing countries to assist them in the adoption of various financing innovations for industrial development.

5. UNIDO promotes the BOT concept as a possible alternative for implementing, financing and operating large industrial infrastructure projects. In the past, such projects were implemented and operated very often by the State, with finance provided

through government borrowing which often led to adverse effects on government budgets and balance-of-payments problems. The focus of UNIDO's promotional effort lies in developing proper negotiating and contracting frameworks at the national level in developing countries. An international seminar on BOT for project implementation and financing was convened in December 1991 in Bangkok, Thailand, in cooperation with the Asian and Pacific Centre for the Transfer of Technology and the Ministry of Science, Technology and Energy of Thailand.

6. A new UNIDO initiative aimed at generating domestic finance for small-scale industries is the subject of a regional workshop proposed for Latin America and the Caribbean on debt conversion schemes to be operated by non-governmental organizations (NGOs) for industrial development. The objective of the workshop, for which financing is still to be secured, is to enable NGOs from the developed world and their counterparts from developing countries to utilize the debt conversion concept in mobilizing domestic finance for small-scale industries, cooperatives and related industrial and social development projects.

7. Work on innovations has also included the preparation of a special chapter on privatization in Industry and Development: Global Report 1992/1993 (ID/382). This study reveals that the two most important objectives of privatization are the improvement of economic efficiency and the reduction of public budget deficits, including deficits arising from efforts to service external debts. Deficit reductions occur directly as a result of the privatization transactions while efficiency gains occur in the longer run as a new management implements changes in enterprise operations. However, efficiency at the enterprise level depends less on ownership than on market structures and other factors, and efficiency gains from effective competition are likely to be greater than gains from ownership change. Maximum efficiency gains will result from privatization when introduced along with overall price liberalization in factor and product markets. The divestiture of state-owned enterprises in the industrial sector as compared to other sectors (e.g. services) holds the promise of higher efficiency since most industrial products are tradeable. However, while there is a considerable commitment to divestiture by Governments of numerous developing countries, this commitment has not been matched in practice by the speed of divestiture. Delays have occurred because of the very considerable constraints to divestiture arising from economic conditions in those countries, including difficulty in mobilizing resources because of underdeveloped financial and capital market institutions and infrastructure, low domestic savings rates, distorted prices in factor and product markets, a weak administrative capacity, and lack of foreign investor interest. Full divestiture involving asset transfer is likely to be gradual and confined generally to some middle-income developing and East European countries, to countries with the required institutional and administrative capacity, and to countries and sectors attractive to foreign investors. Privatization has to be seen as an integral part of price liberalization including the removal of tariffs and other forms of protection notwithstanding the powerful justification of the infant industries argument for various forms of protection in the early stages of industrialization and for the important role of the State. The chapter concludes that, in the developing countries as well as in the countries of Eastern Europe, Governments still have an important job to do to facilitate industrial development. Governments have to decide between too much and too little intervention, between too much and too little protection, and between too much and too little privatization.

Promotion of direct mobilization of financial resources
(GC.4/Res.21, para. 2 (a))

8. Resource mobilization for specific investment projects is achieved by assisting entrepreneurs in developing countries in the identification, formulation, screening and promotion of specific, potentially viable investment projects which require foreign investment resources for their implementation. UNIDO also assists indirectly the enterprise sector by strengthening existing, and establishing new, national institutional capabilities charged with the task of domestic and external mobilization of investment resources and the improvement of the investment environment for local and foreign private investors. Such assistance is provided through the implementation of comprehensive and integrated industrial investment technical cooperation programmes, which are specially designed for each developing country on the basis of a prior analysis of its industrial policies and programmes, its investment opportunities, its investment climate and how it is perceived by potential foreign partners, its institutional and human skills infrastructure for the identification and promotion of projects, and its need for domestic and external investment resources mobilization.

9. The total value of investment projects in developing countries whose promotion was concluded through UNIDO increased from $556 million in 1989 to $890 million in 1991. These figures represent the total investment of all the projects that were identified, screened, formulated and promoted, and concerning which the foreign partner or the national investor has informed UNIDO that a written agreement has been concluded to cooperate in completing the preparation of the project or its implementation.

10. Project planners in developing countries increasingly turn to UNIDO for help in project financing advice and assistance. They expect UNIDO to widen their options and suggest financial packages most favourable to them, and rely on UNIDO involvement in project preparation and implementation to facilitate lending from development banks and to raise the confidence of potential foreign investors. For example, under a trust fund project financed by the Government of Japan, UNIDO carried out a diagnostic study for rehabilitation and expansion of a salt refining factory in Cameroon, as a result of which the Government of Cameroon allowed the company to receive a loan from a national development bank; UNIDO is expected to assist the company in the selection and purchase of the necessary equipment. Another example is the financing under a trust fund from the Danish Industrial Development Agency of a feasibility study on banana ketchup production in Côte d'Ivoire which led to the formulation of a joint venture with Danish and British partners. Financing for this project is being sought from the International Finance Corporation, the Industrial Fund for Developing Countries of Denmark, the African Development Bank and ECOBANK, a commercial bank in West Africa. The greatest demands for UNIDO trust fund services are in pre-investment and diagnostic studies as well as management services for projects financed by development finance institutions. UNIDO involvement reduces the risks of both lender and borrower and leads to better planning and implementation. Examples of these services are: a revolving trust fund project established by the Islamic Development Bank for UNIDO assistance in pre-investment and rehabilitation studies, with plans for diagnostic studies on five industrial plants in

which the Bank had invested (cement and pharmaceutical plants in the United Arab Emirates, textile and fertilizer plants in Senegal, and a foundry in Tunisia); a standing arrangement to assist the Nigerian Industrial Development Bank in pre-investment studies and project appraisal; an investment opportunity study commissioned by the Nigerian Bank with financing from the World Bank; and a training programme on the preparation of feasibility studies conducted for the benefit of participants from companies supported by the New Nigeria Development Company Ltd.

11. Further information on UNIDO activities for the effective promotion of direct mobilization of financial resources for industrial projects in developing countries is provided in the report on industrial investment promotion activities submitted to the ninth session of the Board (IDB.9/7) and in the Annual Report of UNIDO 1991 (IDB.9/10, chap. III, paras. 34-44 and chap. IV, paras. 21-29).

Cooperation with international, regional and bilateral financing institutions for development
(GC.4/Res.21, para. 2 (b))

12. The UNIDO Industrial Investment Division continues to cooperate and coordinate with a number of agencies, both inside and outside the United Nations system such as the Centre for the Development of Industry of the African, Caribbean and Pacific Group of States and the European Community (CDI ACP-EC), the World Bank, the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency, the United Nations Conference on Trade and Development (UNCTAD), the International Trade Centre UNCTAD/GATT (ITC), the Inter-American Investment Corporation, the project development facilities operated by IFC in Africa, Latin America and the Caribbean and the South Pacific, the regional development banks, the European Bank for Reconstruction and Development and the regional economic commissions.

13. During the biennium 1990-1991 work in the field of feasibility studies and related pre-investment activities was marked by a trend towards modernization analyses of existing industries and evaluation of measures to strengthen industrial enterprises scheduled for privatization. The financing of pre-investment work through special-purpose contributions to the Industrial Development Fund as well as through trust fund agreements considerably increased during the year. Based on the success of investment studies with the Japanese private sector, a second agreement was signed with Japan providing UNIDO with $1.4 million for industrial cooperation for the promotion of investment projects in developing countries. Denmark contributed more than $309,000, within a trust fund agreement to the UNIDO project preparation facility so enabling a quick response to ad hoc requests for investment studies and assisting project promoters in investment decision-making. A contribution of $1.2 million has been obtained from the Government of Italy for a major restructuring project of the agro-food sector in Tunisia.

14. Cooperation with regional development banks has been extended through negotiations with the Inter-American Development Bank. There are good prospects for funding of joint programmes in human resource development, investment promotion and industrial feasibility studies with environmental assessment.

15. Cooperative arrangements for the mobilization of financial resources for industrial development has become one of the main issues discussed at Consultation meetings, the basic objective being to assist the entrepreneurial sector in the developing countries to mobilize financial support necessary to rehabilitate and modernize their industries and implement development projects. To this end, the schedules of Consultation meetings have been modified to give an opportunity to potential partners from developing and industrialized countries to discuss financial and other cooperation. Thereby, identification of investment projects has been encouraged. New and innovative enterprise-to-enterprise cooperative arrangements including funds mobilization and financial cooperation were also discussed at a regional workshop on appropriate strategies for fertilizer sector development. Another regional expert group meeting on policies for the fertilizer industry is under preparation in cooperation with the Fertilizer Association of India to address, inter alia, innovative modalities for the mobilization of financial resources in the sector.

16. The Regional Consultation on the Fisheries Industry for Asia and the Pacific Island Countries (December 1991), in focusing on the issue of adding value to fish products, formulated a number of recommendations including the allocation of more resources to training, to product development and production, and to technical cooperation, through such measures as export-credit guarantee schemes, insurance facilities, investment capital, working capital and bank guarantees. The follow-up to the Second Consultation on the Building Materials Industry (November 1991) is addressed to Governments, financing institutions, UNCTAD, the General Agreement on Tariffs and Trade and ITC for a review of financial resources allocations, loan policies for sustained development and the promotion of investment through fiscal incentives, foreign trade, policy liberalization and tariff reforms. Further information on follow-up activities to Consultations held in 1991 and the expected involvement by Governments, regional and international organizations is provided in the annex to document IDB.9/2 and Corr.1.

Conforming with the priorities of UNIDO's Constitution and the medium-term plan
(GC.4/Res.21, para. 2 (c))

17. The priorities accorded to activities related to the mobilization of financial resources for industrial development in the programme and budgets for the current and previous bienniums are based on the UNIDO Constitution and medium-term plan and approved by the General Conference. Furthermore, these activities are undertaken in response to requests from the Governments of the developing countries concerned. The quality of the outputs of any activity is directly linked to the staff and other resources allocated to it; every effort is made to ensure that the highest possible efficiency, effectiveness and impact are achieved through the implementation of these activities. The extent to which UNIDO has succeeded in achieving a higher level of quality is clearly evidenced by the observed increase in: (a) the number of requests received for investment activities; (b) the value of technical cooperation delivered to developing countries, at their request, during the past few years; and (c) the contributions received from industrialized countries for the financing of technical cooperation programmes for investment promotion in developing countries, for augmenting the staff and financial resources allocated by the regular budget to the industrial investment programme as well as for the expansion of existing Investment Promotion Services (IPS) and the establishment of new ones.

18. Investment forums constitute the last phase of the integrated technical cooperation programmes on industrial investment which UNIDO recommends to

developing countries. Forums are only held after considerable preparatory activities have been successfully completed, and only at the request of the developing country concerned. Similarly, terms of reference for consultants assisting in selection of projects are prepared in consultation with the counterpart government agencies concerned, and no consultant can travel to a developing country to undertake an assignment without the prior approval of both the consultant and his terms of reference by the government authorities concerned (see also paras. 22 and 25 below).

Coordination with subregional and regional development banks and international financing institutions
(GC.4/Res.21, para. 4)

19. In addition to the information provided in paragraphs 10, 11 and 12 above, cooperation between UNIDO and international financing institutions is illustrated, for example, in the organization of the Third Investors Forum to be convened in October 1992, in Warsaw, Poland. IFC, which is one of the co-sponsors of the Forum, has joined forces with UNIDO in order to draw upon the interest of many international participants to take part in the Forum. The European Bank for Reconstruction and Development also intends to participate in the UNIDO Forum, and will use the opportunity to make contacts with potential foreign investors participating in the Forum.

20. Continuity of cooperation with the World Bank Group is ensured through a programme of regular contacts, including high-level meetings. The UNIDO Office at New York follows up on matters of joint interest - e.g. on the development of projects in which UNIDO is to be a provider of technical assistance - keeps Bank staff apprised of current UNIDO activities and facilitates meetings for them in Vienna. Furthermore, a working relationship with the Inter-American Development Bank was developed through high-level missions that led to an exchange of information, invitations to participate in meetings at the Bank and in Latin America, and the inclusion of UNIDO technical staff in Bank missions. In addition, in the areas of investment promotion, the Inter-American Investment Corporation (an affiliate of the Inter-American Development Bank) has begun to cooperate more closely with UNIDO. Also, meetings between the President of the Bank and the Director-General have resulted in a better understanding of how the two institutions can cooperate in the region.

Assistance to developing countries in identifying, designing and financing industrial projects in response to their needs
(GC.4/Res.21, para. 5)

21. The approach of UNIDO to technical cooperation activities aimed at mobilizing foreign investment resources, and identifying and designing industrial projects in response to the needs of individual developing countries is best illustrated by describing the investment promotion programme for Viet Nam. The Viet Nam programme was funded by the United Nations Development Programme, supported by in-kind inputs of various IPS offices with the primary objective of assisting the State Committee for Cooperation and Investment (SCCI) in the identification, formulation and promotion of investment projects and the holding of an investment forum. The programme envisaged utilizing inputs from regional and international organizations such as the Economic and Social Commission for Asia and the Pacific and the World Tourism Organization. At the outset UNIDO provided assistance in improving the investment climate in Viet Nam by strengthening the investment infrastructure in the country, namely SCCI, and by reviewing the investment code for Viet Nam. Workshops and seminars for government officials and local entrepreneurs were conducted on topics such as: non-traditional financing techniques; export to the European Community market; financial analysis; preparation of feasibility, and especially market, studies; negotiations and contracting techniques; and investment project terminology. Promotional documentation was prepared on Viet Nam and a number of seminars and presentations were organized by companies, banks, and other institutions.

22. In a later phase of the technical cooperation programme, a UNIDO team of 15 national and international experts identified, formulated and screened 187 specific investment projects in 16 industrial priority subsectors with a total investment value of $6.8 billion, according to clearly defined terms of reference. These investment projects were subsequently promoted through the UNIDO network of IPS offices, the UNIDO Centres for International Industrial Cooperation in Moscow and Beijing and other focal points in countries not covered by IPS offices. The programme was concluded by holding the Viet Nam Investment Forum in March 1991. Further information regarding UNIDO efforts under the above heading is given in paragraph 8 above.

II. UNIDO ACTIVITIES AND THE EXTERNAL DEBT

UNIDO technical cooperation and the alleviation of the debt burden
(GC.4/Res.22, paras. 2 and 3 (a))

23. Technical cooperation activities provide important contributions to an alleviation of the external debt burden. When successful, such activities increase earnings of foreign exchange through exports, or increase savings of foreign exchange through domestic products which substitute for imports, or activities which increase operational efficiency at the enterprise level thus indirectly increasing savings/earnings of foreign exchange. Thus virtually all successful technical cooperation activity tends to alleviate the debt burden in developing countries, and UNIDO continuously strives to increase the quality of its assistance. Moreover, the Secretariat, with the full support of the Industrial Development Board, has refined and improved its methodologies and techniques for appraisal and evaluation as described in the Annual Report of UNIDO 1991 (ID8.9/10, chap. V, paras. 1-20).

24. In a more general sense, in order to alleviate the negative effects of external debt, UNIDO has continued to develop and implement projects and programmes geared to improving the competitiveness of developing countries' industries and enhancing their capabilities to effectively use indigenous resources. Opening up possibilities for exportation through the manufacture of high value-added products and reducing the dependency on imports through locally manufactured products from locally available raw materials have been common objectives of technical assistance and thus contributed to relieving external debt. Projects in the agro-industries, chemical, engineering and metallurgical sectors are designed to achieve an increased and more diverse industrial output, to meet international quality requirements, to facilitate purchase and replacement of equipment, to train personnel and improve the qualifications of managers. These projects have incorporated measures leading to improved maintenance and repair activities at factory level, rehabilitation of existing installations where feasible, and have assisted in subcontracting and equipment selections. Thus in the

food sector technical assistance was provided to Hungary to upgrade the technical level of the Development and Quality Institute of the Frozen Food Industry in order to enable the Institute to fulfil the quality requirements of the European Community from 1992 onwards. Under the Regional Africa National Hides and Skins, Leather and Leather Products Improvement Scheme assistance was extended to Tanzanian leather companies in effluent treatment and quality improvement of the products manufactured. In the petrochemical sector projects were implemented in Indonesia, Nigeria, the Philippines and Thailand which aimed at substituting imports by products locally manufactured using indigenous raw materials, such as rubber, and at creating the possibility to export goods with higher added-value. While preparing for its participation in the Third World Conference on Non-metallic Minerals to be held in Brazil in 1993, UNIDO is currently focusing its programme of integrated utilization of non-metallic minerals on economic aspects and investment opportunities. Strategic policy advice was provided to Jamaica for the ecologically sustainable development of the bauxite/alumina sector which is the major foreign exchange earner of the country. A UNIDO project in Albania improved the technology for briquetting of chromium ore fines which now fulfil export requirements.

25. Examples of a number of pipeline projects aimed at import substitution or export promotion are the following:

- Towards economic liberalization undertaken by the Government of Ethiopia, assistance would be provided in the preparation of a comprehensive programme for the development of export industries. The project would provide the basis for the Government authorities to discuss the programme with bi- and multilateral donors, technical agencies, financial institutions, domestic and foreign investors.

- In China a programme would be prepared with the aim of identifying valuable investment projects to facilitate the creation of joint ventures with French building material companies.

- Through a project in trade and investment promotion, practical cooperation is to be strengthened between Eastern Caribbean and Latin America to examine opportunities for export growth from Eastern Caribbean countries, involving joint ventures designed to expand productive capacity.

- A project in Fiji aims at assisting the Fiji Trade and Investment Board and local entrepreneurs to mobilize resources needed for a number of industrial investment projects discussed at the Fiji Investment and Trade Forum (November 1991), including joint ventures and other forms of industrial cooperation, and to create an environment conducive to attracting foreign investment resources.

- Africa would be given assistance through a project aimed at promoting trade and export of medicinal and aromatic plant products from Africa to European countries, particularly Germany.

- A project in Nigeria, to be funded from national and multiple donor sources, would facilitate the preparation of a comprehensive support programme for strengthening the external trade sector.

- A project in Zambia will assist the Government to formulate a comprehensive framework of policy and support measures necessary to facilitate and implement the privatization programme.

- High-level advisory assistance in privatization would be provided to Hungary to enhance Hungarian efforts in the transition to a free-market economy.

26. Pre-investment activities which result in direct foreign investment, or in efficiency increases through joint venture activities, also contribute to an alleviation of the debt problem. The information provided in paragraph 9 above is of direct relevance to the subject. In addition, activities promoted by the UNIDO System of Consultations, as described in paragraphs 15 and 16 above, contribute in a similar manner.

27. With regard to contract negotiations, growing international competition and rising development costs for advanced technologies are changing deeply the negotiating conditions and the structure of the market for technology. The higher prices, the difficult access to strategic know-how and the risks of acquisition of inadequate or already obsolete technology are real threats to developing countries, with serious implications to their external balance of payments. For these reasons, UNIDO is continuing its work aimed at strengthening the capacity of developing countries to manage efficiently the process of acquisition and negotiation of advanced technology in order to reduce the direct and indirect costs of imported technology and to support the export of their own know-how. Hence UNIDO is promoting the development of an expert system on contract drafting and negotiation of technology transfer which is intended to contribute to faster and more effective technology transactions. UNIDO has also embarked on an educational programme aimed at improving the negotiation skills of government officials, entrepreneurs and professionals in charge of conducting technology transfer negotiations or evaluating technology transfer agreements by making them aware of issues directly related to contracts as well as those that influence technology options and the behaviour of parties. Its educational programmes are also being extended to take into account issues related to specialized and sensitive fields such as complex technology sectors, e.g. steel industry, biotechnology and environmentally-sound technologies. Further details of these activities are provided in the Annual Report of UNIDO 1991 (IDB.9/10, chap. III, paras. 14-33).

28. With regard to the financing of industrial projects, reference is made to the information provided in paragraphs 12, 13, 14, 21 and 22 above.

UNIDO inputs in the current methods of industrial financing and the development of innovative approaches
(GC.4/Res.22, para. 3 (b))

29. Information is provided in paragraphs 13, 21 and 22 above on the promotion and implementation - in collaboration with developed and developing countries and with development financing institutions - of UNIDO inputs in the current methods of industrial

financing geared to the alleviation of the debt problem.

30. Information on the development, within UNIDO's area of competence, of innovative approaches for specific programme and project proposals geared to the alleviation of the debt problem is provided in paragraphs 5, 6, 7, 12 and 13 above, as well as the Annual Report of UNIDO 1991 (IDB.9/10, chap. IV, paras. 32-36).

Consideration of the debt problem and the priorities of developing countries in the planning, formulation and implementation of UNIDO activities
(GC.4/Res.22, para. 3 (c))

31. The priorities of developing countries, as well as of UNIDO, as expressed both in the medium-term plan and the biennial programme and budgets are as follows: human resource development; development and transfer of technology; industrial rehabilitation; small- and medium-scale industries; and environment and energy. In addition, the three elements which are common to industrial development are the mobilization of financial resources for industrial development, economic cooperation among developing countries and subregional industrial cooperation, and integration of women in industrial development. These five priority areas and three common elements form the basic planning parameters in the planning, formulation, and implementation of all UNIDO activities, and take into account the need to alleviate the debt burden of developing countries.

32. In the micro-planning area, the subprogrammes "Project Appraisal" and "Programme Development Support", as reported in paragraphs 3.34 to 3.43 and 3.48 to 3.55 of the programme and budgets, 1992-1993 (GC.4/42), ensure that UNIDO technical cooperation activities are formulated in accord with the basic parameters. Information on the success of these subprogrammes in attaining their objectives is provided in the Annual Report of UNIDO 1991 (IDB.9/10, chap. II, paras. 44-48, and chap. V, paras. 1-9).

33. With regard to the success of UNIDO activities in meeting their priorities and objectives, the subprogramme "Evaluation" (GC.4/42, paras. 2.47-2.54) is the instrument that provides managers, donor and recipient countries with analytical and objective information on the strengths and weaknesses of all UNIDO activities. Information on the performance of the subprogramme and the quality of implementation of activities measured against the basic parameters, which are in line with agreed priorities, is provided in the Annual Report of UNIDO 1991 (IDB.9/10, chap. V, paras. 10-20).

Industrial Development Fund
(GC.4/Res.22, para. 3 (d))

34. The overall philosophy and programming modalities of UNIDO-managed funds, in particular the Industrial Development Fund (IDF) are to aim at optimal utilization of resources. For that purpose it is essential to focus on projects that create multiplier effects and to use resources as seed money to mobilize further extrabudgetary resources in a complementary manner. Investment promotion activities are given high priority under IDF. During the period 1 January 1986 to 30 June 1992, projects for an amount of $53.2 million were approved for investment-related promotional activities in accordance with the priorities of UNIDO, the recipient and donor countries.

35. Through individual projects, UNIDO provides direct assistance in investment promotion; it also assists countries to create and sustain a legal, institutional and business environment that supports international investment and to create or strengthen national institutions that can gradually promote their own projects. The projects related to investment promotion and financed under IDF cover a wide range of activities: (a) institution-building projects for the establishment or strengthening of investment promotion offices or export-processing zone organizations; (b) the network of Investment Promotion Services and delegates' programmes; (c) investment promotion meetings and related preparatory activities, including investment project identification, formulation and promotion, as well as the preparation of investor guides; (d) feasibility, pre-feasibility and opportunity study projects; (e) preparation of investment-related manuals; (f) enterprise-to-enterprise projects such as the establishment of joint ventures, execution of turnkey projects, co-production, subcontracting and licenses; (g) industrial subcontracting; and (h) projects for strengthening the cooperation between UNIDO and development finance institutions.

36. The programme approach, which follows a multifaceted approach to problem-solving through the elaboration of integrated programmes of policy advice, technical cooperation and investment projects all focused on the development of an industrial system, is an effective tool for funds mobilization, both for the bilateral and multilateral funding of technical cooperation projects and for the financing of investments by development finance institutions and the private sector. The elaboration of integrated programmes, in contrast to individual projects, is expected to improve the quality of UNIDO assistance by increasing its impact on industrial development and should enable UNIDO to channel larger amounts of technical cooperation in a more efficient and cost-effective way. Pilot plants and research-related projects can serve to generate further financial flows by demonstrating the feasibility of using new technologies or processes for industrial production, thus facilitating investment decision-making. In conclusion it should be stressed that, in view of the continuous practice of zero-growth budgets, the primary function of UNIDO-managed funds to mobilize further extrabudgetary resources is particularly significant for the Organization and the developing countries whose industrial development needs it serves.

III. ACTION REQUIRED OF THE BOARD

37. The Board may wish to take note of the present report.

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EVALUATION OF THE OBJECTIVES AND FUNCTIONS OF UNIDO IN VIEW OF RECENT CHANGES AND DEVELOPMENTS IN THE WORLD

Report by the Director-General

Summary

In accordance with resolution GC.4/Res.20 of the General Conference, reports on steps taken to ensure that the activities of UNIDO are consistent with the efforts of developing countries to ensure their active participation in the world economy.

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Introduction

1. At its fourth regular session, the General Conference adopted resolution GC.4/Res.20 in which it noted the report submitted by the Director-General to the eighth session of the Board on the evaluation of the objectives and functions of UNIDO in view of recent changes and developments in the world (GC.4/18-IDB.8/40) and raised a number of issues related to the subject. In particular, paragraphs 1, 2, 5 and 6 of that resolution called for specific action by the Director-General.

2. Paragraph 1 of resolution GC.4/Res.20 requested the Director-General to ensure that the voluntary contributions he accepts on behalf of UNIDO are in conformity with the objectives and policies of the Organization. Paragraph 2 requested the Director-General to ensure that the increased requests for technical cooperation from UNIDO do not detract from available resources for the industrial development of the developing countries. Information relevant to those mandates is provided in the documents on the Industrial Development Fund (IDF) and other voluntary contributions (IDB.10/2, chap. II and IDB.9/10, chap. VIII, paras. 14-20 and appendix G) and on guidelines and procedures governing acceptance and funding under special trust funds, IDF and the regular budget (IDB.10/10, IDB.10/15 and UNIDO/DG/B.18/Rev.1).

3. Paragraphs 5 and 6 of the resolution requested the Director-General to ensure that UNIDO promotes the active participation of developing countries in the current changes of the world economy and that the activities of UNIDO are consistent with the efforts of developing countries to ensure that participation. In addition to the report on the evaluation of the objectives and functions of UNIDO in view of recent changes and developments in the world mentioned in paragraph 1 above (GC.4/18-IDB.8/40), in response to United Nations General Assembly resolution 45/196, the Director-General also reported to the Board at its eighth session on industrial development cooperation and diversification and modernization of productive activities in developing countries (IDB.8/32). That report provided, inter alia, a basis for an examination of current and future changes and developments in the world, including the industrial sector. It contained 15 recommendations to the General Assembly, including a proposal for a study on the structure of world industry from the long-term perspective. Subsequently, at the request of the

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General Assembly, the recommendation for a study on the structure of world industry was elaborated and submitted to the ninth session of the Board (IDB.9/5). Against that broad background, the present report focuses on efforts to ensure the participation of developing countries in current changes of the world economy.

I. PARTICIPATION OF DEVELOPING COUNTRIES IN CURRENT CHANGES OF THE WORLD ECONOMY

4. The active participation of developing countries in the world economy implies a focus on cross border transactions, i.e. foreign trade, both imports and exports, and cross border resource flows including capital, technology, information and management/marketing resources embodied in foreign direct investment. UNIDO has been active in carrying out concrete steps in promoting those activities and in assisting developing countries in strengthening their capacities to facilitate an expansion of the diversity and scale of such cross border transactions. Thus, UNIDO's contribution, through concrete measures to increase the developing countries' participation in the global economy, can be characterized as both direct and indirect. Document GC.5/6-IDB.10/20 on the mobilization of financial resources for industrial development and the external debt and industrial development contains information on concrete actions taken by the Director-General to facilitate the active participation of developing countries in the world economy.

5. The essential point of resolution GC.4/Res.20 is that UNIDO activities be seen within the context of recent changes and developments in the world, as made explicit in its title. The Director-General has given high priority to the Global Report, published annually as a formal and substantive tool for identifying major global developments and their impact on industrialization. In Industry and Development: Global Report 1992/93 (ID/382),* the following major changes in the global economy received attention:

(a) Regional disintegration (chaps. I, II, IV);

(b) The current recession and its structure in Western Europe and North America (chaps. I, III);

(c) New perceptions concerning technological growth, labour productivity and human resource development in the 10 world regions (chap. II);

(d) The marginalization of the least developed countries: progress in the 1970s and stagnation in the 1980s (chaps. I, II);

(e) The demise of central planning and the rise of privatization (chaps. I, IV).

Regional disintegration

6. In 1991, for the first time in more than 50 years, global output declined because of the recession and the collapse of the centrally planned economies of Europe. The disintegration of the former Union of Soviet Socialist Republics meant not only the dissolution of a political entity, but signalled the demise of a central planning strategy for industrialization. The role of market forces and price liberalization have now become nearly universal as a strategy for industrial development (Industry and Development: Global Report 1992/93 (ID/382), chaps. I, II, IV).

7. UNIDO has modified its approach to industrial planning in recent years, including such concepts as industrial master plans, and further modifications have included the development of a new approach to the strategic management of industrial development, as described in the progress report on new concepts and approaches for cooperation in respect to industrial development in conformity with Article 2 (c) of the Constitution (IDB.8/39-GC.4/17, paras. 39-41). This strategic management approach has been followed by a large number of African countries and is now being introduced in the Asian region.

The current recession and its structure in Western Europe and North America

8. The most recent recession has proved to be one of the longest, and although world growth is expected to expand in 1993, recovery in the developed countries will remain sluggish. The analysis presented (ibid., chaps. I, III) identifies those elements in the recession which form parts of normal business cycles and those elements of a longer-term nature. In particular, everywhere in the world economy employment continues to be a major concern. The recession in the richer countries combined with longer-run factors has resulted in 30 million unemployed in the countries of the Organisation for Economic Cooperation and Development (OECD) in 1992. There is now large-scale open unemployment in the former centrally planned economies. In developing countries there are persistent complaints that industrial growth, even when it is rapid, fails to generate jobs at the rate needed to keep up with the growth of the labour force. These are not unconnected developments since a steadily expanding economy in the OECD countries is essential for rapid growth everywhere. However, it should be emphasized that the fruits of rapid industrialization are as evident in extra employment in other economic sectors as in manufacturing. Chapter III of Industry and Development: Global Report 1992/93 (ID/382) contains a structural analysis of eight Asian economies and demonstrates the symbiotic relationships between manufacturing and agriculture and between manufacturing and services.

9. Information on technical cooperation activities that have the objective, inter alia, of strengthening the symbiosis between manufacturing and agriculture and manufacturing and services is contained in the Annual Report of UNIDO 1991 (IDB.9/10, chap. II, paras. 62-72, 115-125).

New perceptions concerning technological growth, labour productivity and human resource development

10. Two major elements, institutions and human skills, go a long way in explaining interregional differences in technical progress and hence industrial performance. Raising productivity in manufacturing does not necessarily require natural resource endowments; more essential is investment in the building of institutions and human capabilities and skills. In comparing the industrial performance of the 10 major regions of the world, the Global Report for 1991/92 (ID/376) focused in chapter II on the role of institutions and the institutional infrastructure in those regions.

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* Scheduled for issuance in late October 1992.

The Global Report for 1992/93 (ID/382) examines in chapter II interregional growth performance from the perspective of human skills and training, since changed perceptions of the new roles of technology in industrial production could lead to fundamental policy changes in human resource priorities for industrialization. The analysis also contains an examination of a cooperative venture between Bangladeshi entrepreneurs and Daewoo, from the Republic of Korea, with an essential training component.* Bangladeshi staff were able to learn not only narrowly defined production skills, but also the know-how and skills embodied in the system of marketing and management of Daewoo and its dynamic, effective corporate culture.

11. The importance of human resource development has long been recognized by UNIDO, and technical cooperation activities in this area are described in the Annual Report of UNIDO 1991 (IDB.9/10, chap. II, paras. 141-148) and the progress report for 1992 (IDB.10/18, chap. II). These activities are useful, and just as useful are the capabilities and skills transfer that occur as a result of UNIDO's promotion of enterprise-to-enterprise cooperation (IDB.9/10, chap. III, paras. 34-44 and chap. IV, paras. 32-35). However, attention may also need to be directed towards how the intangibles of the corporate cultures in the most successful business firms can be transferred successfully. A related issue is that, although the importance of investment in human capital is widely recognized, attention may need to be directed towards identifying the specifics in making such investment efficient.

The marginalization of the least developed countries

12. While Latin America is witnessing a revival in growth and inward capital flows and growth in most Asian economies is virtually self-sustained, sub-Saharan Africa constitutes the most serious challenge to the international development community. During the decade of the 1970s, of the world's poorest 50 countries (those in which the majority of the population exists on the equivalent of less than one dollar per day), some 10 were able to escape from the category of the poorest. During the 1980s, that number totalled only four. Almost all of those 50 poorest countries are in sub-Saharan Africa. Unless the world economy recovers to the pace of growth observed in the 1970s, nine out of ten of the 50 poorest countries will remain in that category for at least another decade. During the 1970s and 1980s, the income levels of 26 developing countries suffered continuous decline, and of those, seven joined the ranks of the 50 poorest countries. The list of countries that lost income from 1970 to 1990 includes some of the world's poorest and their losses were staggeringly large. For example, Mozambique's per capita income dropped from $283 to $117 (-59 per cent); Liberia from $536 to $227 (-58 per cent); Benin, Chad, Ghana, Madagascar, Sierra Leone, Uganda and Zaire all lost between 25 and 50 per cent of their income during those two decades. Those which lost income between 3 and 25 per cent include the Central African Republic, Comoros, Ethiopia, Guinea, Guinea-Bissau, Mauritania, Niger, and the United Republic of Tanzania. In contrast, during the period 1970 to 1990, some 33 out of the original 50 poorest countries made a positive gain in income, of which 11 countries at least doubled their per capita income during the 20-year span, in spite of their higher than average population growth rates. Those include Egypt, Indonesia, Thailand, and such land-locked countries as Bhutan, Botswana and Lesotho, as well as a number of small island countries such as the Maldives and St. Vincent.

13. UNIDO recognizes the priority claims of the poorest countries. Information on concrete UNIDO actions with respect to those countries is contained in the Annual Report of UNIDO 1991 (ibid., chap. IV, paras. 8-15, and appendix F).

The demise of central planning and the rise of privatization

14. Findings shown in chapter IV of the Global Report for 1992/93 (ID/382) indicated that the two most important objectives of privatization are the improvement of economic efficiency and the reduction of public budget deficits, including deficits arising from efforts to service external debts. The analysis found that, despite the considerable commitment by Governments to the divestiture of state-owned enterprises, delays have arisen because of economic conditions, including difficulties posed by underdeveloped financial and capital market institutions and infrastructure, a weak administrative capacity, and lack of foreign investor interest. Further highlights of that analysis that are also relevant to the present discussion are contained in paragraph 7 of document GC.5/6-IDB.10/20.

II. POLICY RESPONSE BY UNIDO TO CURRENT CHANGES IN THE WORLD ECONOMY

15. Concrete actions taken in response to current changes in the world economy are reflected in the technical cooperation activities delivered by UNIDO. The current changes in the international economic environment have influenced the content of such activities or prompted the development of new ones, as described in the documents referred to in paragraphs 4, 7, 9, 11, 13 and 14 above. At the same time, as was pointed out to the Special Advisory Group to the Director-General at its last session in May 1992, sweeping changes have emerged in the operating environment of UNIDO. Thus the redefinition by the United Nations Development Programme of the relationships in the tripartite system of technical cooperation has resulted, inter alia, in an increasingly unpredictable flow of resources to UNIDO. Furthermore, the status of UNIDO's clients and the nature of services required are drastically changing as a result of economic liberalization in developing countries and the introduction of market economy principles in the countries of Eastern Europe. These trends are inducing a marked shift in the demand for UNIDO services towards sectoral analyses, policy advice and work at the programme level. The challenge for UNIDO will lie in the strengthening of its capability to design and implement integrated programmes drawing upon the full range of expertise available in the Organization.

III. ACTION REQUIRED OF THE BOARD

16. The Board may wish to take note of the present report and provide guidance on further activities to be developed by UNIDO.

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* See box in chapter II, "Bangladesh's success with garment exports: what South-South cooperation in training can do", ibid.